

# Budget Overview

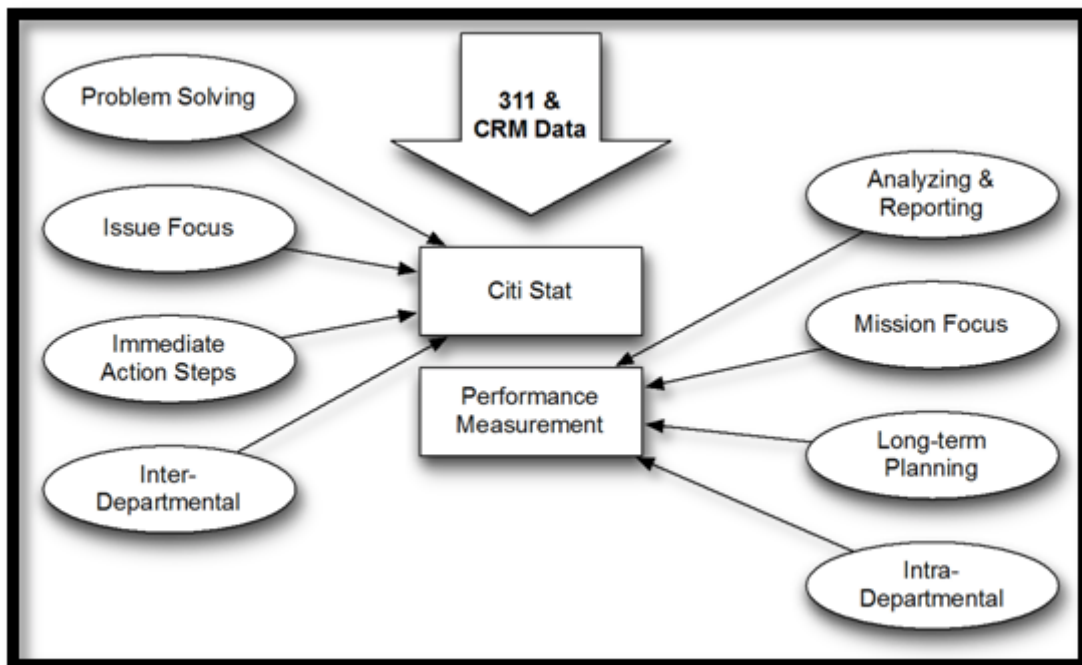
## The City's Mission and Priorities

*The City's Mission:* to provide responsive and cost effective services through the enhancement of employees, neighborhoods, youth and business development.

*The City's Priorities:*

1. Create safe and vibrant neighborhoods – *goal:* To enhance crime prevention, provide support for at-risk and ex-offender populations, and promote community partnerships and citizen participation.
2. Grow prosperity and opportunity for all – *goal:* Improved business incentives and business-related government processes and the elimination of barriers related to economic issues.
3. Invest in our young people – *goal:* Education and developing opportunities to retain and attract youth for productive service to our businesses and communities.
4. Advance a culture of excellence in government – *goal:* Reformation of government processes and improvement of organizational coordination, clarification of customer service standards, improving internal quality assessment and accountability, and both increasing and improving opportunities for citizen feedback.

The City of Memphis strives to be a high performing organization. As a result, city employees transitioned the way we utilize, analyze, and synthesize data to measure effectiveness. We designed a performance management model that combines Citi-Stat, performance metrics, and 311/CRM data in a coordinated effort to enhance internal performance and external customer service. The illustration below describes how the main tenants of the model work together. These platforms serve dual purposes as management instruments and accountability tools for both operations and fiscal management.



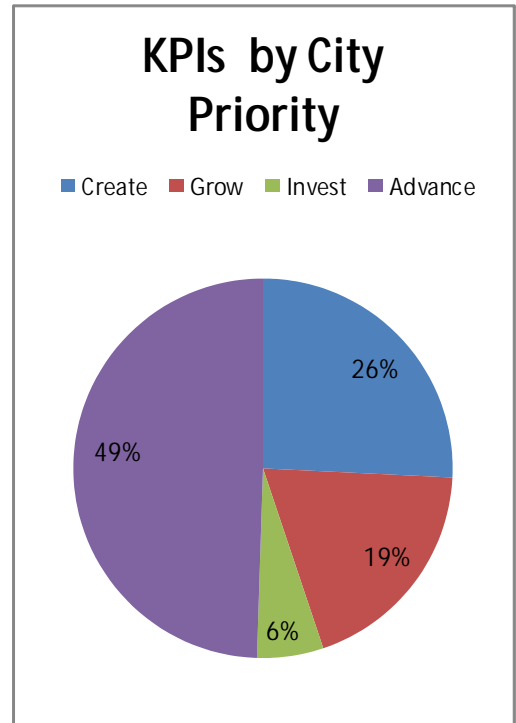
## Performance Accountability Plans



The performance accountability plans, which fall under the performance measurements component of the aforementioned model, are a mechanism for analyzing and reporting data on how resources are used and how specific outcomes are achieved based on divisional missions and strategic, long-term planning. Moreover, the performance accountability plans align each division's mission and performance objectives to the overarching city mission and priorities. Below are two graphics, which demonstrate how the key performance indicators (KPI) relate the City Priorities.

#### **City Priorities and KPI Matrix**

Division	KPIs	Create	Grow	Invest	Advance
City Attorney	16	1	2	0	13
City Council	0	0	0	0	0
City Court Clerk	0	0	0	0	0
City Court Judges	0	0	0	0	0
Engineering	11	7	3	0	1
Executive	16	0	3	4	9
Finance	12	0	0	0	12
Fire	24	11	0	0	13
General Services	24	5	4	0	15
HCD	10	0	10	0	0
Human Resources	12	0	0	0	12
Information Services	9	0	1	0	8
Parks and Neighborhoods	35	9	14	7	5
Police	13	10	0	0	3
Public Works	12	7	0	0	5
<b><u>Total KPIs</u></b>	<b><u>194</u></b>	<b><u>50</u></b>	<b><u>37</u></b>	<b><u>11</u></b>	<b><u>96</u></b>



The Fiscal Year 2014 (FY) budget funds all aspects of the aforementioned priorities that will help accomplish our Mission. In the budget process both the realities of the economy and the needs and demands of the citizenry were considered.

#### **The Economic Impact on Budget Planning**

The Memphis local economy has recovered from the lows of the economic downturn; however there will continue to be a lasting impact from the years of economic difficulty. The Memphis economy is diverse and the City is attracting new businesses, Electrolux is poised to open its North American manufacturing operation in a few months, The Great American Steamboat Company has made its home on the banks of the Mississippi in Memphis, and Bass Pro Shops will open its largest store, loaded with attractions, in 2014.

The recovery impacts are mixed. While stock markets have returned lost values to our pension funds, the unemployment rate has not seen a significant decline and remains at around 9.5%. The economic outlook for the Memphis MSA is for the recovery to drag on until the major markets and the nation have grown stronger. The Memphis MSA has traditionally been a slow, steady growth area that benefits from strong national and international economic expansion. Slow population growth limits local opportunities for internal expansion and creates the link between growth of other markets and expansion of local economic opportunities.

Unemployment Rate	June 2013	Month/ Month	Year/ Year
National	7.6%	0.0	-0.6
Tennessee	8.5%	+0.2	+0.3
Memphis	9.5%	0.0	+0.4



**Note:** Metro level data is now seasonally adjusted. All comparisons are made with June 2013 data as July metro level unemployment data has not yet been released.

Source: WGU Tennessee – Department of Numbers

Our recovery trends also lag national trends in some of the other leading economic indicators such as housing. In fact our property values were reassessed for 2013. This occurs every four years. The result of the 2013 property reappraisals was that property median values declined by 18% from \$81,200 in 2012 to \$66,200 in 2013. This property value decline was a first for Memphis, previously property reappraisals always showed increases.

The lower property values resulted in a tax rate increase just to maintain the same level of revenues of the previously higher valued properties. As a result of the budget neutral tax rate increase it was especially difficult to convey to citizens the need to go beyond that increase for necessary inflationary increases and service demands. Consequently the City Council reduced the administration's submitted budget by over \$9.0 million.

## Implications of Declining Property Values

<u>FY 2013 Property Value</u>	<u>Tax Rate</u>	<u>Revenue</u>
 \$100,000	3.11	\$778.00
<u>FY 2014 Property Value</u>	<u>Tax Rate</u>	<u>Revenue</u>
 \$ 92,619	3.36	\$778.00

**Responsiveness to Needs of the Citizenry****General Fund Discussion**

This budget addresses three priority issues: increasing the reserve fund which was used, in part, in FY 2013 to fund the city's Memphis City Schools (MCS) obligation, (see MCS details below in the expenditures discussion); restoration of employee salary reductions, which were also used to fund the MCS obligation; and investing in the community through increased funding for libraries and community centers. The adopted budget for FY 2014 is balanced. Revenues are planned to be greater than expenditures by \$13.1 million.

**Revenues**

The FY 2014 *general fund budget* is \$626.4 million dollars. This is \$22.0 million less than FY 2013 adopted budget of \$648.4 million.

Revenues				
Fund Type		FY 2013 Adopted	FY 2014 Adopted	Inc / Dec
General Fund	\$	628,906,596	\$ 626,482,567	\$ (2,424,029)

The revenue budget was developed relying on, among other things economic research by the University of Memphis (U of M), with particular focus on the forecast and trends for the top ten revenue sources.

To give some insight into the revenue budget, below are partial comments from the University of Memphis that influenced our revenue plan.

- The set of large sources for the General Fund is forecast to grow 1.0 percent in FY2014, given assumptions about no changes in rules that regulate growth of revenue. Slower growth is anticipated over the next decade, with the ten year average annual growth rate being 0.7 percent.
- Of the ten largest sources of revenues, six decreased in FY2012, three are forecasted to decrease in FY2013, and two are anticipated to decrease in FY2014.

According to U of M in the case of the two most important sources, Property Taxes and Local Sales Taxes, their forecast sharply decreases revenue anticipation. U of M notes the following for property and local sales taxes:

- Property Taxes - The forecast for FY2014 is \$241.0 million, a downward forecast revision. The median forecast would be 0.8 percent growth. The risk of collections falling short of FY2013 in FY2014 is measured with a 0.37 probability.
- Local Sales Taxes - The longer forecast horizon for FY2014 will be around the median forecast of \$96.9 million, a downward revision of the prior forecasting report. The anticipated growth rate would be positive, 0.5 percent. However, the risk of a decrease is a 0.45 probability, still relatively high.

Given the U of M analysis and other strategic priorities, notable FY 2014 budget revenue increases and decreases are as follows:

- ❖ \$ (3.4) million – Tax revenue shortfall to FY 2013 budget
- ❖ \$ (1.0) million – Delinquent tax sale revenue shortfall from the FY 2013 budget



- ❖ \$ ( 3.4) million - Revenue (tax rate) moved to Debt Fund
- ❖ \$ 1.5 million - Increase in court fee collection
- ❖ \$ 1.4 million - Increase in ambulance fee collection
- ❖ \$ 2.5 million - MLGW Water Pilot to offset like expenditures

### **Expenditures**

The FY 2014 *general fund expenditure budget* is \$613.4 million dollars. This is \$9.1 million below the administration's request and \$35.0 million less than FY 2013 adopted budget of \$648.4 million.

### **Expenditures**

Fund Type	FY 2013 Adopted	FY 2014 Adopted	Inc / Dec
General Fund	\$ 648,479,586	\$ 613,402,538	\$ (35,077,048)

For FY 2014, the nature of expenditures has changed with Memphis City Schools (MCS), and their associated funding, transitioning to Shelby County effective July 2014. To recap; for the past three years the City of Memphis has MCS above their state funding in amounts averaging \$60.0 million annually without a dedicated revenue source. This funding, required by the courts, caused expenditure reductions and one-time measures to balance operating budgets during the three year period. With the Maintenance of Effort funding ceasing in FY 2013, the FY 2014 budget resets the opportunity for revenues and expenditures to align for apportionment to the current needs of the city as identified by our priorities.

Expenditures, although reduced by \$52.7 million, formerly contributed to MCS, saw a net \$35.0 million reduction from the FY 2013 adopted budget as priorities were rearranged to restore some of the costs, eliminated to fund schools, yet efficiencies also still brought reductions in other areas. The combination of increases and decreases that compose the \$17.7 use of the MCS funding reduction are identified below.

#### Expenditure increases:

- ❖ \$22.0 million – Pensioner's Insurance
- ❖ \$16.0 million – Restoration of salary reductions
- ❖ \$ 2.0 million – Blight control
- ❖ \$ .7 million - Code Enforcement Officers
- ❖ \$ 2.0 million - Restoration of library and community center services
- ❖ \$ 4.0 million - Health Insurance

#### Expenditure decreases:

- ❖ \$ -15.0 million - Vacancy and attrition reductions
- ❖ \$ - 2.0 million – Removal of funding for the Motor Vehicle Inspection Bureau
- ❖ \$ - 4.0 million – Elimination of transfer to the Debt Fund – *tax rate assigned to debt*
- ❖ \$ - 6.0 million – Street Lighting – *transitioning responsibilities to the utility company*
- ❖ \$ - 2.0 million - Police expense reduction

The administration remains committed to seeking and evaluating opportunities to increase efficiencies and ensure the most cost effective service delivery options are in place.

**Debt Service Fund Discussion**

The Debt Service Fund provides for the accumulation of resources for the payment of principal, interest, and other costs of the City's general obligation bond debt. A major source of Debt Service Fund revenue \$89.2 is provided by an apportionment of the property tax rate. For FY 2014 the property tax rate for the debt fund is \$0.9093. This is \$0.19 cents higher than the FY 2013 budget. The increase is a combination of two factors: the certified tax rate required to keep revenues budget neutral as a result of the property reappraisals discussed earlier, and a reapportionment of the general fund tax rate.

The FY 2014 property tax rate allows for the payment of the increased cost of the retirement of debt from prior refinancing funding for MCS. The debt fund is budgeted to use approximately \$9.4 million of its committed fund balance to meet its principal and interest payments for FY 2014. The committed fund balance at the end of FY 2014 is expected to be \$10.4 million.

**Enterprise Funds Discussion**

Enterprise Funds account for the acquisition, operation and maintenance of the City's facilities. The Enterprise Fund revenues, composed of Sewer and Storm funds, will approximate last year's budget. Total Enterprise Fund revenue is budgeted for \$128 million; \$104 million for the Sewer Fund, and \$24 million for the Storm Water Fund respectively.

**Enterprise Fund**

Fund Type	FY 2013 Adopted	FY 2014 Adopted	Inc / Dec
Sewer Treatment	\$ 102,232,000	\$ 104,250,000	\$ 2,018,000
Storm Water	\$ 23,500,000	\$ 24,260,000	\$ 760,000
	<u>\$ 125,732,000</u>	<u>\$ 128,510,000</u>	<u>\$ 2,778,000</u>

The Sewer Fund is expected to generate an increase in its fund balance of \$20.1 million. Revenues generated for sewer fees will finance federal capital mandates. All capital improvement funding for FY 2014 will come from sewer fund reserves and no debt will be issued.

The Storm Water Fund will use \$0.9 million of its fund balance to meet the proposed expense budget for FY 2014.

**Internal Service Funds Discussion**

Internal Service Funds (ISF) are used to budget for the costs of goods and services provided by one division to other City divisions. The City of Memphis' ISF's are the Healthcare Fund, OPEB and the Fleet Fund. The costs in these funds are reimbursed by the divisions utilizing the goods and services provided by the ICFs.

**Internal Service Fund**

<b>Fund Type</b>	<b>FY 2013 Adopted</b>	<b>FY 2014 Adopted</b>	<b>Inc / Dec</b>
Health Care Fund	\$ 82,289,333	\$ 81,060,844	\$ (1,228,489)
OPEB Fund	\$ 47,501,686	\$ 48,259,476	\$ 757,790
Fleet Mgmt Fund	\$ 34,372,428	\$ 32,578,100	\$ (1,794,328)
	<u>\$ 164,163,447</u>	<u>\$ 161,898,420</u>	<u>\$ (2,265,027)</u>

The Healthcare Fund is budgeting revenues of \$125.1 and expenses of \$127 million for FY 2014. This will produce a deficit for FY 2014 of \$1.9 million; however the general fund will transfer \$4.0 million to the health fund which will eliminate the deficit.

The Fleet Fund is budgeted for expenses of \$33.6 million.

Both of these funds will undergo reviews in FY 2014 that may change their rates or structures.

**Special Revenue Funds Discussion**

Special Revenue Funds (SRF) budgets allocate expenses for revenues received for specific purposes. Solid Waste and Metro Alarms are the major Special Revenue Funds. Other funds that make up the Special Revenue Fund can be found in the Special Revenue section of this document.

**Special Revenue Fund**

<b>Fund Type</b>	<b>FY 2013 Adopted</b>	<b>FY 2014 Adopted</b>	<b>Inc / Dec</b>
Solid Waste	\$ 58,732,125	\$ 56,033,274	\$ (2,698,851)
Metro alarm Fund	\$ 512,650	\$ 616,450	\$ 103,800
MLK Improvement	\$ 140,446	\$ 131,000	\$ (9,446)
Bord of Education	\$ 63,500,000	\$ -	\$ (63,500,000)
OPD	\$ 6,823,298	\$ 4,020,000	\$ (2,803,298)
	<u>\$ 129,708,519</u>	<u>\$ 60,800,724</u>	<u>\$ (68,907,795)</u>

The largest fund, Solid Waste (SW) is has reduced its SW fees in accordance with a prior year agreement. This reduction will cause SW to use \$10.0 million of its fund balance. Studies of service delivery are underway and during the FY 2014 calendar this fund will be restructured as necessary for long term efficiency.

The detail of each fund is presented in the special revenue funds section located in this document.

